

MR. WEINSTEIN: Thank you, Madame Chair, and other members of the Commission. I just have a few comments to make. I'm not going to read my prepared testimony.

Yesterday, as you know, the Department of Commerce reported a record trade deficit that widened to 26.5 billion driven by higher oil prices and such, and it looks like for '99 as a whole, we're going to have about a \$268 billion deficit, up significantly from 1998.

I read an Associated Press article about the trade deficit, and the reporter referred to the trade imbalance as a quote, "blot" on America's otherwise superior economic performance. And I think that was an unfortunate choice of words. It indicates that most economic business journalists don't know much about fundamental economic principles, and maybe that's part of the problem that the public has understanding trade issues and foreign investment and the like.

We've already heard today I think from most of our speakers that the trade deficit in today's context is certainly not a sign of weakness but probably a sign of strength. Gee whiz, Japan runs

huge surpluses and it has a weak economy. We're running a big deficit and we have a strong economy.

And the other thing that's often overlooked is that our export growth over the past decade has been nothing short of phenomenal. I've got a little chart here, Exhibit 1. Last year, U.S. exports totaled \$958 billion, nearly double that of a decade ago, even with the rising value of the dollar. In the year 2000, the United States will export \$1 trillion worth of goods and services. That's about one-eighth of GDP. (SEE INSERT 1)

That strikes me as a real positive, and I think we need to be looking at what's happening on the export side and not just be wringing our hands over the fact that we have a large deficit. We've heard several speakers already today talking about accounting practices, and I actually reproduced a chart that I think you saw earlier that came from a recent publication of the Dallas Fed on the capital account versus the current account and such.

So I'm not going to comment on that, except to say that net capital inflows have created millions

of jobs for U.S. workers, far exceeding any that might have been lost as a result of the trade deficit.

Let me be very parochial for a minute and talk about Texas. We Texans love trade and foreign investment. We are free traders. We are very strong advocates of open markets. You don't hear many voices from Texas talking about protectionism and trade restrictions and the like, and I think there are a couple of reasons for that.

We understand that trade and foreign investment have been at least partly responsible for our economic fortune in the past and in the present. It's also been responsible for our economic problems in the 1980s, you may recall.

If you look at the ten most populous states, Texas has had the greatest percentage gains of employment during the 1990s, and if you look at the ten largest metropolitan areas in the country, Dallas-Ft. Worth and Houston ranked first and second in absolute job growth during the 1990s, even though they rank eighth and ninth in population.

And actually, Professor Leamer, I think the average Joe in Texas, particularly in the major

metropolitan areas, is doing quite well. We've seen very significant increases in per capita income, in median household income, unemployment rates in DFW and Houston of about 3 percent. The average Joe is doing quite well in this open economy, although I do agree with you that education is going to be the key to our competitiveness in the future.

I think a second reason Texans are free traders and welcome international investment is because so many of our industries have a very strong export or import competing orientation, and in fact that's always been the case. In the old days, it was energy and agriculture, and although those industries are still here and they're still important, most of the state's economic expansion over the past couple of decades can be traced to our fast-growing information technology industries: computers, electronics, telecommunications, software, and the like.

And in fact, today, we rank second only to California in hi-tech employment.

In 1998, the last year we have good data for it, Texas export total was \$87 billion and our hi-tech products, electronic equipment and computers, led the

charge. If you use the rule of thumb that one billion in exports supports directly 20,000 jobs, we're talking about 1-3/4 million Texans who owe their livelihood to export activity, and import-related businesses probably account for another 1/2 million jobs in this state. So we're talking about one in four Texas jobs being related to trade.

And I would argue that open markets and two-way investment flows are absolutely critical to the current and future health of Texas, and particularly our hi-tech industries, and I'd make the same argument for the U.S. as a whole.

The other reason Texans are free traders is because of our unique position and our location in the heart of NAFTA. We have probably benefited more than any other state from NAFTA. Our exports to Mexico and Canada, our two largest trading partners, jumped from 25 billion right before the NAFTA to 47 billion in 1998. We're talking about 54 percent of all Texas exports going to Mexico and Canada.

And Texas is also the major crossroads for highways, for rail corridors between Canada and the U.S. and Mexico. Interstate 35 right down the street

here is referred to as the NAFTA highway in these parts. It runs through the heart of Texas. It links up virtually every major east-west interstate in the nation.

We've got three major railroads serving Texas and entering Mexico through Texas: the UP-SP, BNSF, and the KCS-TexMex. Laredo is the busiest inland port in the nation.

So I would conclude by saying that we are extremely concerned in Texas about the rising tide of protectionism and anti-globalism. The recent failure of the World Trade Organization to agree on an agenda for further liberalization of trade doesn't bode well for export economies like Texas, and I believe a slow down in world trade, more than any other factor, could derail both the U.S. and Texas economies.

I hope your Commission becomes an advocate for free trade and a vocal critic of protectionism. Thank you.

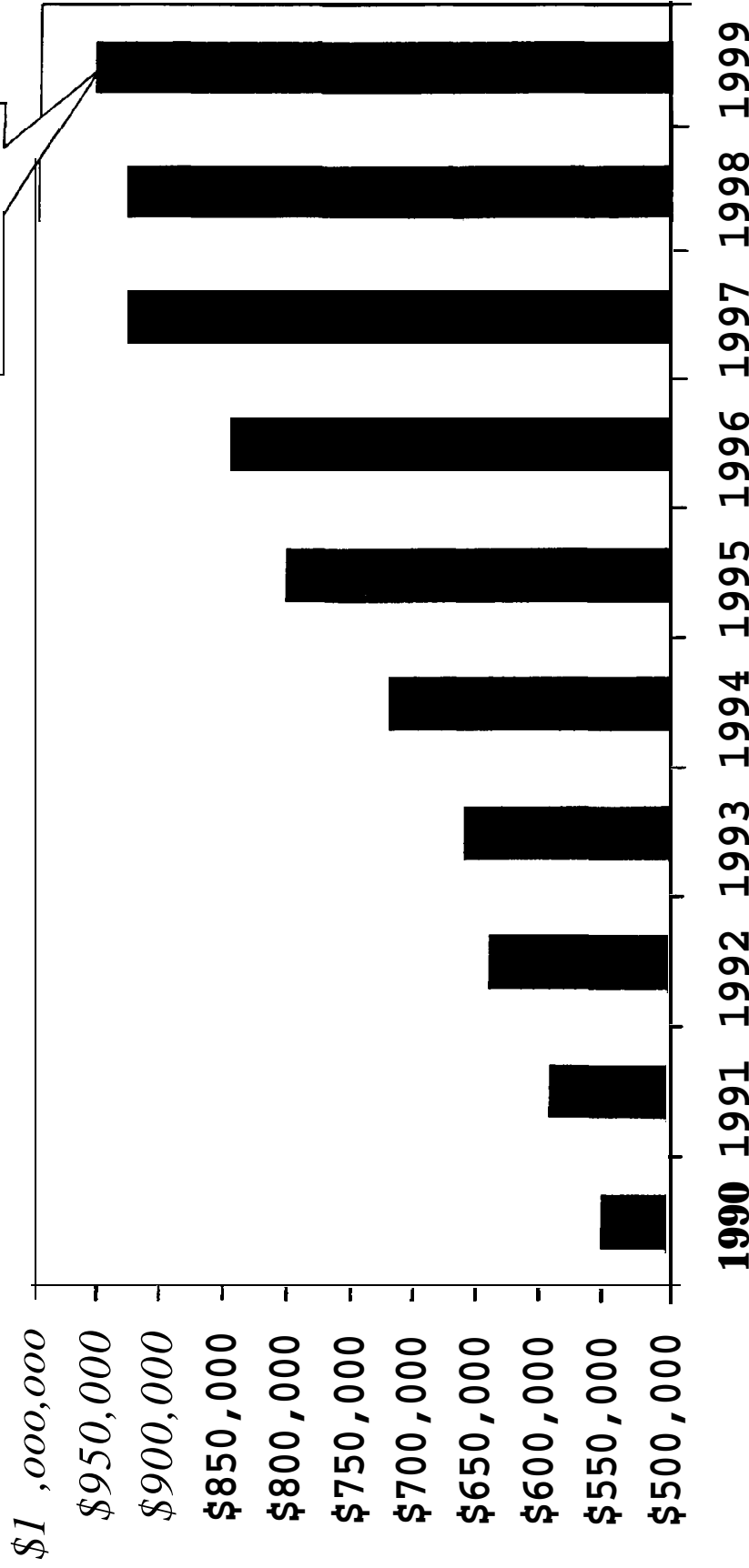
COMMISSIONER HILLS: Thank you, Professor Weinstein, and welcome, Dr. Vargas, who is a senior economist for the Federal Reserve Bank here in Dallas.

Thank you for being with us.

EXHIBIT 1

U.S. Exports of Goods and Services (\$ millions)

\$958* billion
est.



Source: U.S. Dept. of Commerce